



MASSACHUSETTS WATER POLLUTION ABATEMENT TRUST

Steven Grossman, Chair

INVESTMENT PROCEDURES

It is the intent of the Board of Trustees (the “Board”) of the Massachusetts Water Pollution Abatement Trust (the “Trust”) to issue these Investment Procedures (“Procedures”) for the purpose of stating guidelines and procedures to be used by the Trust, and the Trust’s advisors and investment providers, for the investment or deposit of moneys held by the Trust and the management of the Trust’s investment program. The Procedures shall be implemented by the Executive Director of the Trust in accordance with the Investment Policy of the Trust adopted by the Board on March 6, 2013.

Governing Law

The Massachusetts Water Pollution Abatement Trust was created in 1989 by Chapter 275 of the Acts of 1989, constituting, in part, Chapter 29C of the General Laws of the Commonwealth of Massachusetts (collectively, with Chapter 203 of the Acts of 1992 and Chapter 78 of the Acts of 1998, as amended, the “Act”). The Trust is a public instrumentality of the Commonwealth responsible for administering the Water Pollution Abatement Revolving Fund (the “Clean Water Revolving Fund”) and the Drinking Water Revolving Fund (the “Drinking Water Revolving Fund”) established under the Act to provide funding for water pollution abatement projects and drinking water projects, respectively. The Clean Water Revolving Fund and the Drinking Water Revolving Fund each receive annual federal capitalization grants providing approximately 80% of the capitalization of the fund and required state matching funds providing approximately 20% of the capitalization of the fund. Notes and bonds may be issued by the Trust, pursuant to the Act and under and pursuant to a resolution entitled “Amended and Restated Resolution Authorizing and Establishing a Water Pollution Abatement and Drinking Water Project Financing Program” adopted by the Trust on March 4, 1993, as amended (the “Program Resolution”).

Under the Program Resolution, the Trust can issue bonds (“Program Bonds”) to fund costs of water pollution abatement projects, including loans, called Title 5 Loans, to fund community septic management programs, and drinking water projects. Each series of Program Bonds is issued under a separate bond resolution and is secured by assets, funds and accounts held under the bond resolution as security for that series of Program Bonds, as well as assets, funds and accounts held under the Program Resolution as security for all Program Bonds. The Trust can also finance such projects by making loans that are funded directly with federal capitalization grants and commonwealth matching grants.

The Program Resolution also provides for a loan program to provide interim loans to borrowers to finance project costs in anticipation of the issuance of Program Bonds. Financial assistance

provided by the Trust under its Clean Water Program consists of funding of approved projects with terms of up to thirty years from project completion, but in no event longer than the expected useful life of the project financed or refinanced. Financial assistance provided by the Trust under its Drinking Water Program consists of the funding of approved projects with terms of up to twenty years from project completion.

The Program Resolution also provides for the issuance of bond anticipation notes for the funding of the Trust's interim loans in anticipation of the issuance of Program Bonds.

Investment Authority

Under section 4(b) of chapter 29C of the Massachusetts General Laws, the Trust may invest its funds in such investments as may be legal investments for the Commonwealth or any fiduciary in the Commonwealth, but subject to the requirements of (1) the Act, (2) applicable provisions of any loan agreement or trust agreement of the Trust, including the Program Resolution and any Bond Resolution, and (3) federal law requirements with respect to federal capitalization grants. This statutory provision essentially authorizes the Trust to invest its funds in accordance with the "prudent investor" rule articulated over the years by the Supreme Judicial Court and codified in the Massachusetts Prudent Investor Act (chapter 203C of the Massachusetts General Laws). Legal investments of the Commonwealth are listed in chapter 29, § 38 of the Massachusetts General Laws.

Scope

These Procedures apply to the investment of any funds of the Trust, including funds used as security for the Trust's Program Bonds, other funds invested to maximize investment earnings, the amendment of any investment agreements, and the termination of any investments and the re-investment of received funds from such terminations.

Investment Objective

The primary objectives of the Trust in the investment or deposit of funds is, in order of priority: safety, liquidity, and yield.

Safety. Safety of principal is the foremost objective of the investment activity. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

Liquidity. The investment portfolio shall have sufficient liquidity to meet all administrative operating requirements that may be reasonably anticipated, all program purpose investments (i.e., short and long term direct financings), and the liquidity needs of the Program Bonds. The Trust's investments shall be structured so that securities mature concurrent with cash needs or by investing in securities with active secondary or resale markets.

Yield. The investment portfolio shall be structured to achieve maximum yield, subject to the rebate regulations promulgated under the Internal Revenue Code and program, legal, regulatory, and operational constraints.

Standards of Care

Prudence

The standard of prudence to be used by investment officials of the Trust shall be the "prudent investor" standard of chapter 203C of the Massachusetts General Laws (Massachusetts Prudent Investor Act) and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with these Procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of these Procedures.

Conflict/Ethics

All participants in the investment process shall act responsibly, professionally, and in accordance with the requirements of chapter 268A of the Massachusetts General Laws. The Executive Director, Treasurer, and other employees of the Trust involved in the investment process shall refrain from personal business activities that could conflict with the operation of the investment program of the Trust or impair their ability to make impartial decisions. If such employee finds that he or she has, or may in the future have a financial interest in a matter in which he or she has responsibility as an employee of the Trust, the employee shall immediately file such disclosure forms with the Trust and the State Ethics Commission as required by the Commission and chapter 268A of the General Laws.

Delegation of Investment Authority

The Board, by approving the Investment Policy, has delegated to the Executive Director of the Trust authority to manage the investment program of the Trust, hereinafter referred to as the "investment officer". Responsibility for the operation of the investment program is hereby delegated to the investment officer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with these Procedures.

The written procedures and internal controls should include references to: safekeeping, delivery vs. payment, investment accounting, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of these Procedures and the written procedures and internal controls established by the investment officer. The investment officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

Due Diligence

Prior to making an investment, the Trust shall perform such review of the qualifications, financial strength, experience and expertise of the investment provider and any securities custodian as appropriate for the investment type. The review is intended to avoid doing business with a firm that is financially weak, has limited experience in providing the investment instrument being purchased, lacks general financial expertise, would, in the opinion of the Trust, put the Trust's funds at risk, or is otherwise unsuitable for the investment of Trust funds. After

making an investment, the Trust shall monitor the investment and the investment provider to ensure that the investment continues to comply with these Procedures and remains a suitable investment for the Trust and shall monitor any securities custodian to ensure that the Trust's assets are safe. Such monitoring shall include, as applicable or appropriate, review of financial reports, filings with state and/or federal securities regulators, and filings with state or federal banking regulators.

Investment Process

The Trust recognizes that the appropriate investment process varies depending upon the characteristics of the specific instrument. Generally, funds deposited for relatively short periods of time to be used for the on-going cash needs of the Trust will be deposited in the Massachusetts Municipal Depository Trust ("MMDT"). Listed below is the process to be followed for the significant investment of funds in the following other types of instruments, subject to any additional requirements of the Act, the Internal Revenue Code, or other applicable law.

Marketable Securities — A competitive bid process shall be the Trust's preferred method of purchasing marketable security¹ investments. The bid process shall consist of at least three firms being requested to provide quotes by a specified time in the specified manner. The request to bid should list the specific instrument, investment amount and maturity date of the investment.

Money Markets — Investments in money market accounts, other than MMDT, may be done after a comparative review. For money markets the review may include, but shall not be limited to, the following: a comparison for the past year of the fund being considered to the performance of other funds with similar credit standards, average maturity of investments and other comparative information deemed appropriate.

Bank Demand Deposits — For bank demand deposits the review may include, but shall not be limited to, the following: the bank's rating by applicable national or regional rating services, the nature of the deposit insurance carried by the bank, a comparison for the past year of each bank's yield on demand deposits, the method used by each bank to establish demand deposit rates, restrictions on the investment, administrative procedures and other comparisons deemed appropriate.

Guaranteed Investment Contracts — For Guaranteed Investment Contracts investments shall be made after the receipt of at least three bids. The request for bids may specify differing amounts of collateral depending upon the bidder's credit rating.

Consultants/Advisors

The Trust may engage the services of a Consultant/Advisor to assist and advise the Trust with respect to its investments. For guaranteed investment contracts a consultant/advisor may provide information on firms currently bidding on such agreements, standard industry provisions, current market conditions, timing suggestions and receipt of bids. If an advisor/consultant is engaged,

¹ A marketable security for the purpose of this paragraph shall include treasuries, agencies, commercial paper, certificate of deposits and similar financial instruments. Money market accounts, demand deposits, and guaranteed investment contracts are not to be considered marketable securities.

the role shall be to advise and assist, not to make the final investment decision. All consultants/advisors and other contractors shall be held to the highest ethical and legal standards and shall be expected to comply with all applicable provisions of chapter 268A of the Massachusetts General Laws.

Rebate

The Trust recognizes that under certain circumstances investment earnings in excess the “arbitrage yield” on Program Bonds may have to be rebated to the United States Treasury. The Trust shall, therefore, be diligent in complying with all regulations concerning the investment of bond proceeds. Prior to investing bond proceeds, the Treasurer shall consult with program counsel and/or bond counsel to ensure that the bidding and other investment procedures conform to current IRS regulations.

The Trust shall maintain records on the expenditure of bond proceeds, investment earnings and determination of any rebate liability. All investment providers must be required to provide appropriate reports and certifications. The Trust shall determine that an investment will comply with IRS regulations and provide sufficient data to perform rebate calculations.

Safekeeping and Custody

All trades of marketable securities will be executed by delivery vs. payment to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities will be held by an independent third-party custodian, which may be the Program Trustee or a Bond Trustee or a broker-dealer selected by the Trust’s investment advisor and approved by the Trust. The custodial arrangement shall be evidenced by safekeeping receipts in the Trust’s name.

Internal Controls

The investment officer shall establish and maintain a system of internal controls that shall be documented in writing in the Trust’s Policies and Procedures manual and shall be reviewed and updated periodically. The internal controls should be reviewed by the Chief Accounting and Compliance Officer. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the Trust.

Permitted “Investment Obligations”

Pursuant to the statutory provisions described above under “Investment Authority” and consistent with the Program Resolution and the Bond Resolutions for each borrowing of the Trust, the permitted investments (“Investment Obligations”) for the investment and deposit of moneys in the various funds of the Trust, are as follows:

“Investment Obligation,” with respect to the investment or deposit of moneys held for the credit of any Fund or Account or Sub-account hereunder, means any of the following which at the time are legal investments for moneys of the Trust:

(1) direct general obligations of the United States of America and obligations (including obligations of any federal agency or corporation) the full and timely payment of the principal and interest on which, by act of the Congress of the United States or in the opinion of the Attorney General of the United States in office at the time such obligations were issued, are unconditionally guaranteed by the full faith and credit of the United States of America, or any other evidences of a direct ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in this Clause (1);

(2) any bonds or other obligations of any state of the United States of America, of any agency, instrumentality or local governmental unit of any such state or any other entity that has the ability to issue obligations the interest on which is excludable from gross income for federal income tax purposes: (a) which are not callable at the option of the obligor or otherwise prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice; (b) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in Clause (1) hereof which fund may be applied only to the payment of interest when due, principal of and redemption premium, if any, on such bonds or other obligations on the maturity date or dates hereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate; (c) as to which the principal of and interest on the bonds and obligations of the character described in Clause (1) hereof which have been deposited in such fund along with any cash on deposit in such fund is sufficient to pay interest when due, principal of and redemption premium, if any, on the bonds or other obligations described in this Clause (2) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in sub-clause (a) of this Clause (2), as appropriate; and (d) which bear ratings at the time of purchase hereunder in one of the two highest rating categories available from each Rating Agency;

(3) senior bonds, debentures, participation certificates (representing a full and timely guaranty of principal and interest), notes or similar evidences of indebtedness of any of the following: Bank for Cooperatives, Federal Intermediate Credit Banks, Federal Financing Bank, Federal Land Banks, Federal Home Loan Bank System, Federal Farm Credit Bank, Federal National Mortgage Association, Export-Import Bank of the United States, Farmers Home Administration, Federal Home Loan Mortgage Corporation, Resolution Funding Corporation, Government National Mortgage Association, Student Loan Marketing Association or Tennessee Valley Authority; provided that such obligations are rated at the time of purchase hereunder in one of the two highest rating categories by each Rating Agency;

(4) obligations of, or obligations unconditionally guaranteed by, the World Bank (International Bank for Reconstruction and Development and International Finance Corporation), European Bank for Reconstruction and Development, European Investment Bank, Asian Development Bank, Inter-American Development Bank, African Development Bank and the Nordic Investment Bank, provided that such obligations are rated at the time of purchase hereunder in one of the two highest rating categories by each Rating Agency;

(5) public housing bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or temporary notes, preliminary notes or project notes issued by public agencies or municipalities, in each case fully

secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

(6) direct obligations, whether tax exempt or taxable, of any state of the United States, of any political subdivision, agency or instrumentality thereof or any other entity of any such state that has the ability to issue obligations the interest on which is excludable from gross income for federal income tax purposes, including the Commonwealth, provided that if such obligations are purchased as an investment of amounts pledged to the payment of Bonds, such obligations are rated at the time of purchase hereunder in one of the two highest rating categories by each Rating Agency;

(7) obligations guaranteed by the Commonwealth, whether tax exempt or taxable, provided that such obligations are rated at the time of purchase hereunder in one of the two highest rating categories by each Rating Agency;

(8) prime commercial paper of a corporation incorporated under the laws of any state of the United States of America, having at the time of purchase hereunder the highest rating available from each Rating Agency;

(9) direct obligations of non-profit entities, provided that such obligations are rated at the time of purchase hereunder in one of the two highest rating categories by each Rating Agency;

(10) interest bearing time deposits, certificates of deposit, bankers' acceptances or other similar banking arrangements with banks (which may include the Program Trustee or any Bond Trustee), provided that if such obligations are purchased as an investment of amounts pledged to the payment of Bonds, such deposits either: (a) are made with banks having at the time the deposit is made a rating from each Rating Agency no lower than the rating then assigned by such Rating Agency to any Bonds Outstanding; or (b) are fully collateralized and secured by such obligations and in such manner as will not adversely affect the credit ratings then assigned by any Rating Agency to any Bonds Outstanding; or (c) the total amount deposited with an institution does not exceed the applicable FDIC insurance maximum;

(11) shares of a diversified open-end management investment company as defined in the Investment Company Act of 1940, which is a money market fund, provided that if such obligations are purchased as an investment of amounts pledged to the payment of Bonds, such obligations have been rated by each Rating Agency at a level which will not adversely affect the ratings then assigned by such Rating Agency to any Bonds Outstanding;

(12) participation units in a combined investment fund created under Section 38A of Chapter 29 of the General Laws of the Commonwealth the purchase of which will not adversely affect the ratings then assigned to any Bonds Outstanding by any Rating Agency;

(13) repurchase agreements for obligations of the type specified in Clauses (1) and (2) above, provided that if such obligations are purchased as an investment of amounts pledged to the payment of Bonds, either (a) the repurchase agreement is an unconditional obligation of the provider thereof and such provider is rated at the time of purchase hereunder by each Rating Agency at a level which will not adversely affect the ratings then assigned by such Rating Agency to any Program Bonds Outstanding or (b) such repurchase agreements are fully

collateralized and secured by such obligations and in such manner as will not adversely affect the credit ratings then assigned by any Rating Agency to any Program Bonds Outstanding; and

(14) investment agreements with banks, bank holding companies, insurance companies or other financial institutions, or any other investment obligation or deposit, whether or not issued or incurred by any of the foregoing, provided that if such obligations are purchased as an investment of amounts pledged to the payment of Program Bonds, such investment will not adversely affect the then current ratings, if any, assigned to any Program Bonds Outstanding by any Rating Agency; provided that any requirement of the foregoing that an obligation be rated by each Rating Agency at a specified level shall not apply to a Rating Agency that has not assigned a rating to such obligation so long as a rating has been assigned to such obligation by at least one Rating Agency at such specified level and, if more than one Rating Agency has assigned a rating to such obligation, no rating is lower than such specified level; and, with respect to the investment or deposit of moneys held for the credit of any Fund or Account or Sub-account under any Bond Resolution, the term “Investment Obligation” shall have the meaning given such term in such Bond Resolution;

Reporting

The Executive Director or the Treasurer of the Trust shall prepare an investment report at least annually that provides a review and analysis of the current investment portfolio. The report shall be prepared in a manner that will allow the Board to ascertain whether investment activities during the reporting period have conformed to these Procedures. The report shall describe the composition and results of the portfolio and list by type of investment instrument the issuer, par amount, purchases price, market value, coupon or yield, and maturity date. The report shall also make recommendations, as appropriate or desirable, to the Board for amendment, revision, or replacement of the Investment Policy. The report shall also inform the Board of any material changes to these Procedures or the termination, replacement, or re-negotiation of the contract of any investment provider.

Amendment and Filing with Finance and Governance Board

The investment report shall be prepared with sufficient time to allow the Board to review and approve any amendments or revisions to, or replacement of the Investment Policy and to file the Investment Policy, together with these Procedures, with any amendments or revisions thereto, with the Finance and Governance Board in a timely manner.